

## Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 EB-07 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 FTC-01

PA-01 PRS-01 /095 R

DRAFTED BY NEA/EGY:GGBROWN:CEK

APPROVED BY NEA/EGY - MR SEMAKIS

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R 061537Z JUN 75

FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 132256

E.O. 11652: GDS

TAGS: EINV, EG

SUBJECT: STATUS UNION CARBIDE INVESTMENT

1. MR. WILLIAM MINGES, BUSINESS MANAGER OF THE HYDRO-CARBONS DEPARTMENT MADE A SPECIAL TRIP DOWN FROM NEW YORK TO BRIEF THE DESK AND AMBASSADOR GHORBAL ABOUT UNION CARBIDE'S APRIL/MAY MEETINGS IN CAIRO. IN SUMMARY, CARBIDE WANTED US TO KNOW THEY ARE STILL INTERESTED IN A REDUCED AND REFINED ROLE IN A MAJOR PETRO-CHEMICAL PROJECT BUT SINCE THEY WILL NOT BE A MAJORITY PARTICIPANT, THEY FELT SOMEBODY ELSE SHOULD PUT TOGETHER THE FOREIGN PARTICIPATION.

2. ORIGINALLY CARBIDE AND EGYPTIAN GENERAL PETROLEUM CORPORATION ENVISAGED PROJECT BASED ON 300,000 METRIC TONS ANNUALLY OF ETHYLENE WITH MAINLY AN EXPORT ORIENTATION FOR THE VARIOUS PRODUCTS. CARBIDE THEN FOUND WITH 1980-85  
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PRICES, THE EXPORT TASK, ESPECIALLY FOR EUROPEAN MARKETS, WOULD BE DIFFICULT IN LIGHT OF COMPETITION WITH FACILITIES IN THE IMPORTING COUNTRIES OR FACILITIES USING CHEAPER ETHANE RAW MATERIALS. THE REVISED COMPLEX WOULD NOW BE

MORE ORIENTED TOWARD THE EGYPTIAN MARKET AND SOME EXPORT FOR NORTH AFRICA AND EAST AFRICA.

3. CARBIDE RECOMMENDED A MULTIPLE COMPANY ORGANIZATION FOR

THE NEW COMPLEX WHICH WOULD CONSIST OF A GROUP OF JOINT VENTURE COMPANIES WITH EQUITY PARTICIPATION FROM EGPC, ARAB INVESTORS, AND FOREIGN MANUFACTURING COMPANIES. THE NEW COMPLEX WOULD BE BASED ON A NAPHTHA CRACKER PRODUCING 150,000 METRIC TONS OF ETHYLENE AND WOULD PRODUCE 60,000 MT OF LOW DENSITY POLYETHYLENE, 150,000 MT OF VCM, 150,000 MT OF PVC, 60,000 MT OF STYRENE, 50,000 MT OF POLYSTYRENE, 70,000 MT OF POLYPROPYLENE, AND 40,000 MT OF SBR SYNTHETIC RUBBER. CHLORENE AND BENZENE WOULD BE PURCHASED BY THE COMPLEX.

4. IN THIS COMPLEX UNION CARBIDE WOULD HAVE AN EQUITY AND MANAGEMENT INTEREST IN THE LDPE JOINT VENTURE, BUT ONLY EQUITY INTEREST IN THE JOINT VENTURE TO PRODUCE OLEFINS. UNION CARBIDE'S INTEREST IN THE OLEFIN'S JOINT VENTURE WOULD BE PROPORTIONAL TO THE LDPE VENTURE'S OFF-TAKE OF ETHYLENE.

5. IN TERMS OF CAPITAL INVESTMENT, CARBIDE IS ESTIMATING 263 MILLION DOLLARS TOTAL FIXED CAPITAL FOR THE EGYPT OLEFIN COMPANY AND 224 MILLION DOLLARS FOR THE EGYPT LDPE COMPANY.

6. IN SUMMARY CARBIDE ENVISAGES THE NEED FOR FOUR OR MORE JOINT VENTURES (JV) BECAUSE AT LEAST THREE DIFFERENT FOREIGN MANUFACTURING COMPANIES WOULD BE INVOLVED IN PRODUCING THE PRODUCTS FROM THE COMPLEX. ONE JV WOULD OWN THE NAPHTHA CRACKER AND RELATED OLEFINS FACILITIES. PRE-SUMABLY ALL THE MANUFACTURING COMPANIES AND EGPC COULD HAVE EQUITY PARTICIPATION IN IT. AN EGPC/UCC JV WOULD OWN THE LDPE FACILITY. A THIRD JV WOULD OWN THE VCM, PVC, AND SBR FACILITIES. EACH OF THESE TWO JVS WOULD BUY CONFIDENTIAL

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ETHYLENE AND THE LATTER WOULD BUY BUTADIENE FROM THE OLEFINS JV. A FOURTH JV WOULD OWN THE POLYPROPYLENE FACILITY AND WOULD PURCHASE PROPYLENE FROM THE OLEFINS JV. YET ANOTHER JV COULD BE ESTABLISHED TO PRODUCE STYRENE/POLYSTYRENE. OTHER ARAB INTERESTS COULD HAVE EQUITY PARTICIPATION IN ANY OR ALL JVS IF DESIRED. THIS ORGANIZATIONAL STRUCTURE ENVISIONS ALSO THAT ALL UTILITIES, WASTE TREATMENT, AND OTHER COMMON SERVICES WOULD BE SUPPLIED BY A SERVICES COMPANY WHOLLY OWNED BY EGPC.

7. CARBIDE AS A NON-MAJORITY PARTICIPANT, NO LONGER FEELS IT CAN LEGITIMATELY PLAY A LEAD ROLE IN PUTTING THE VARIOUS PARTS OF THIS COMPLEX TOGETHER. THEY HAVE

STRONGLY ENCOURAGED DR. HAMAD AMER OF EGPC AND OTHER EGYPTIANS TO HAVE THE GOE HIRE A FIRM LIKE BECHTEL OR FLUOR TO ORGANIZE THE VARIOUS PARTS OF THE PACKAGE AND ACT AS MANAGING CONTRACTORS. THERE WAS APPARENTLY SOME

EGYPTIAN RELUCTANCE ON THIS MAINLY STEMMING FROM AN EGYPTIAN LACK OF UNDERSTANDING OF HOW THESE LARGE PROJECTS ARE PUT TOGETHER. MANY EGYPTIANS APPARENTLY COULD NOT UNDERSTAND HOW TWO OR MORE FOREIGN COMPANIES COULD OPERATE IN ONE COMPLEX.

8. THE EGYPTIANS ARE STILL HOPING TO GET ONE MAJOR OPERATOR FOR THE WHOLE COMPLEX AND APPARENTLY ARE HAVING DISCUSSIONS WITH PHILIPS PETROLEUM ON THE SUBJECT.

9. IN SUMMARY, CARBIDE WANTED IT KNOWN AND TOLD THE GOE IT IS STILL VERY INTERESTED IN PARTICIPATING IN THE PROJECT AND IS ANXIOUS TO GIVE THE GOE AS MUCH HELP AND SUPPORT AS POSSIBLE IN THIS NEW ROLE. THEY HAVE APPARENTLY EVEN OFFERED TO SEND ONE OF THEIR EXECUTIVES TO CAIRO FOR A SIX MONTH PERIOD TO ASSIST THE GOE IN PUTTING THE PROJECT TOGETHER. THEY WERE ALSO CONCERNED THAT THE DETAILS OF THEIR DISCUSSIONS OF THIS COMPLEX SUBJECT WERE WELL MISREPRESENTED BEFORE THEY LEFT. FOR EXAMPLE, WHEN THEY TALKED TO SAYED MAREI HE HAD RECEIVED TOTALLY CONFUSED INFORMATION ON THE DISCUSSIONS. CARBIDE OFFICIALS WILL BE BACK IN CAIRO EARLY THIS SUMMER TO SEE WHAT, IF ANYTHING, THE GOE STILL ENVISIONS FOR CARBIDE.  
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